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1**Memorandum for:**

This memorandum was request by Jay Burgess, Director, East European Division, Department of Commerce to assist in preparations for the meeting of the US-Romanian Joint Economic Committee on 6-7 April 1986.

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Attachment
as stated

**EUR A**

Office of European Analysis
Directorate of Intelligence

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27 March 1986

MEMORANDUM FOR: Jay Burgess
Director, East European Division
Department of Commerce

Michael Merin
Department of Commerce

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FROM

Centraleast European Branch
East European Division
Office of European Analysis

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SUBJECT : Prospects for Romanian Trade Growth in
1986-90

1. The national economic planning document for 1986-90 was released in September 1984 and ratified in November at the 13th Party Congress. It reflects the optimism generated by the slight economic upturn and improved trade performance that year, as well as the traditional Romanian penchant for setting ambitious growth goals. Despite the setbacks suffered by the economy and in trade performance in 1985, the plan is still operative.

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2. Plans for trade expansion in 1986-90 call for the volume of total trade (exports and imports) to grow 41-45 percent, significantly more than the planned growth of 26-27 percent for 1981-85. The volume of exports in the 1986-90 plan is scheduled to grow by 9 percent annually; no plans are given for import growth but the implied annual rate of import growth, given the plans for total trade and export growth, is no more than 5-6 percent annually. The plan therefore seems to indicate that, as in 1981-85, export growth is the chief priority in trade objectives, and that import growth will occur only under conditions of sustained significant export growth.

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3. Romania's heavy debt service obligations' will continue to determine trade policies for most of the 1986-90 period. Annual debt repayment obligations in 1986-88 are as heavy as those in 1984-85 and mandate continued large trade surpluses. In addition, domestic economic difficulties are likely to persist, rendering increases in the production of additional export goods difficult.

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4. Since external financial and domestic economic constraints through most of the decade will resemble those of the past five years, a review of trade performance in 1981-885 provides a basis for projecting 1986-90 trade patterns. The Romanian press recently released 1981-85 plan fulfillment data. According to the communique, the volume of total trade grew by 25.6 percent in the period, with exports growing by 46.5 percent and imports by 6.7 percent. Our calculations, however, do not match the Romanian data. Using trade category-weighted price indices for imports and exports by region and adjusting some Romanian reported data with alternative data that is clearly more accurate, our calculations indicate that the volume of trade decreased 2.5 percent in 1981-85 in comparison with 1976-80. The volume of exports to all regions increased 10.6 percent while that of total imports decreased 18.5 percent. The volume of exports to market economies increased 29 percent, while the volume of imports from market economies decreased 33 percent. The shift in trade patterns with market economies has been dictated largely by the need to generate hard currency trade surpluses so as to meet debt obligations to Western banks, governments, and more recently, the World Bank and the IMF. The growth in the value of total trade was not reported in the Romanian communique but our estimates indicate an increase of 21 percent, with the value of total exports growing 35 percent and that of total imports growing 7-8 percent. The value of exports to the market economies grew 39 percent, while the value of imports from market economies decreased 6 percent (see table). The disparity between trade volume and trade value is a result of changes in terms of trade which have generally been unfavorable to the Romanians. But whether volume or value data are used to judge trade performance, import growth clearly has been suppressed during the period.

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5. The large shifts evident in 1981-85 as exports grew and imports were suppressed represented a major adjustment. In the 1976-80 period imports surged, far outstripping export growth and producing large trade deficits. After moving from a convertible currency trade deficit of more than \$1.5 billion in 1980 to a convertible currency trade surplus of nearly \$2.1 billion in 1984, trade performance appeared to deteriorate in

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[REDACTED]

1985, producing a surplus of about \$1.5 billion, which is not sufficient to meet the 1986 debt repayment schedule. Therefore, given the priority the regime of President Ceausescu attaches to paying off the debt, import restrictions are likely to be continued. In addition, the regime will continue to structure import deals on a countertrade basis. Furthermore, unless sizeable infusions of new capital are obtained this year, Bucharest will have difficulty in sustaining recent import levels. Import growth prospects will not improve until 1989-90 at the earliest, when debt repayment obligations decline. [REDACTED]

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6. Nevertheless, Romania's investment program, directed largely at increasing domestic energy production, provides some near-term opportunities for Western business. Equipment for the nuclear power plant at Cernavoda, secondary oil recovery equipment, pipe for gas and oil pipelines, and spare parts for oil and gasfield equipment appear to have priority in Romanian import needs. In addition, because of the failure to produce as much coal as planned in 1985, the Romanians may be interested in increasing coal imports from the US. [REDACTED]

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Romania: Trade With Market Economies, 1976-85
(in billion current \$ US)

<u>Year</u>	<u>Exports</u>	<u>Imports</u>
1976	3.318	3.317
1977	3.537	3.687
1978	4.085	4.869
1979	5.397	6.472
1980	6.322	7.973
1976-80 Total	22.659	26.318
1981	7.112	6.901
1982	6.006	4.604
1983	5.833	4.221
1984	6.347	4.283
1985*	6.270	4.767
1981-85 Total	31.568	24.776

* Preliminary estimate.

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SUBJECT: Prospects for Romanian Trade Growth in 1986-90

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